



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 12/18/2002

GAIN Report #PL2038

## Poland

### Agricultural Situation

### Polish Agriculture Agreement With EU

## 2002

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#### **Report Highlights:**

**The report includes a FAS/USDA Warsaw translation of the Polish Ministry of Agriculture and Rural Development website regarding the agricultural terms of Polish EU accession. This site also highlights the amount per hectare of direct payments Polish farmers will receive in 2004. As a result of EU agreement to Polish requests, direct payments will be boosted to Polish farmers on a "simplified" per hectare basis while the commercial milk quota concessions are viewed by Polish authorities as an opportunity to expand such production.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Warsaw [PL1], PL

#### Direct Payments:

Poland's strongly anticipated last minute requests for additional CAP supports resulted in EU agreement to boost direct payments by shifting some structural readjustment funds to direct payments and authorize Polish government supplemental payments. In contrast to the EU's original offer of direct payments during the first three years of EU accession (2004-2006) at the equivalent of 25, 30, and 35 percent compared to those provided to current EU member state farmers, the levels were elevated to 55, 60, and 65. Direct payments will be 323 zloty/PLN per hectare (approximately equivalent to US\$ 84 per hectare) in 2004. According to press announcements by Poland's Deputy Prime Minister and Minister of Agriculture and Rural Development, Jaroslaw Kalinowski, the Polish government budget for various forms of agricultural support, currently totaling 4 billion zloty (PLN), will not change but will supplement EU CAP support.

#### Milk Quotas:

Another major development was EU agreement to add another 1.5 million tons for commercial sales to the milk quota. Given Poland's current 7.4 million tons of such production, Poland's Deputy Prime Minister and Minister of Agriculture and Rural Development, Jaroslaw Kalinowski, is highlighting that EU agreement to increase their original offer from 7.0 up to 8.5 million tons will enable the Polish dairy sector to increase competitive commercial production over the next 8 years.

The substantial increase in these payment levels and dairy milk quota increase is being viewed very positively by the Polish government, media and public which will strengthen the likelihood of a pro-accession referendum vote scheduled in May 2003; official accession would then occur in May 2004. Over the next several months, it is expected that Polish government leaders will strongly advocate EU membership as they attempt to generate as large a voter turn out and pro-accession vote as possible.

#### Crop Production:

Poland was not as successful in convincing the EU to increase crop production quotas but was able to get the EU to increase the base crop area by 140,000 hectares for a new total at 9.454 million hectares. Poland accepted the EU reference yield proposal of 3.0 tons per hectare of grain but had been seeking a 3.61 reference yield.

#### Beef:

Poland has little beef consumption tradition and has experienced its first four confirmed cases of BSE since May of 2002. Nevertheless, the addition of EU CAP supports on beef is expected to generate additional incentive in the Polish livestock sector to augment beef breed production in Poland. Most current domestic beef is derived from older less productive dairy cattle.

#### Sugar and Iso-glucose:

The sugar production quotas were set at 1,580,000 tons white sugar (1,717,460 ton of raw sugar) for

domestic use quota A and 91,926 tons quota B (99,924 tons of raw sugar) for export with subsidies. For iso-glucose production, the total agreed quota is 26,781 tons. In the final stage of its negotiations, Poland was requesting 1,580,000 of quota A and 104,400 tons (current level in Poland's WTO agreement) quota B while it sought a 40,000 ton iso-glucose production quota.

Above are initial comments and information regarding Poland's EU agricultural accession agreement. Further separate FAS Warsaw commodity sector reports examining specific production impacts are planned.

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Note:

1. Following English translated text is available in Polish on the Polish Ministry of Agriculture and Rural Development web page: <http://www.minrol.gov.pl/bprasowe/151202.htm>;
2. Exchange rates as of 12/17/2002 were: USD 1 = Zloty (PLN) 3.86; EUR 1 = Zloty (PLN) 4.00 and USD 1 = EUR 0.97

## **Preliminary Information on the Results of Finalized Negotiations on Accession with EU in the Agricultural Sector**

### **1. Financial Impacts**

#### **Common Policies**

In years 2004-2006, after accession with EU, Polish agriculture will be supported by around EUR 7,252 million exclusively from the EU budget, which will result in average annual almost EUR 2,417 million support. Such support will be almost twice as high as PLN 5,082 million (EUR 1,271 million) total CY 2002 GOP agricultural support, excluding KRUS expenses (agricultural insurance and pension fund). The EU budget support will consist of:

Direct payments (per hectare of agricultural land)- EUR 886 million, 1,003 million and 1,112 million (total EUR 3,001 million) in consecutive years 2003, 2004 and 2005. It was agreed that direct payments can be increased up to limits of 55, 60 and 65% of the EU level in each consecutive year 2004, 05 and 06. The necessary payments from the domestic budget are estimated at a maximum level of PLN 1,881million, PLN, 2,088 million, PLN 2,358 million (total PLN 6,327 million).

Market Intervention and export subsidies: EUR 130 million in 2004, EUR 343 million in 2005 and EUR 367 million in 2006 (total EUR 840 million, according to European Union Commission estimates).

Rural development: EUR 679 million, EUR 794 million and EUR 902 million (together with national funding) respectably in year 2004, 2005 and 2006.

Structural funds in agriculture: - around EUR 1,969 million (together with national funding) total during 2004-2006 period for Operational Program for Agricultural Sector and around EUR 100 million, total during 2004-2006 period for Integrated Operational Regional Development Programs.

Additionally, it was agreed that it will be allowed that Polish agriculture will be able to be supported by national funds used for continuation of some of the current agricultural support programs, particularly on

subsidized credits.

## **2. Direct Payments**

Level of direct payments

Finally it was agreed that direct payment can reach limits of 55, 60 and 65% of the EU level in each consecutive years 2004, 05 and 06. These payments will consist of the following elements:

- (i) 25, 30 and 35% in years 2004, 05 and 06 will be covered directly from the 1<sup>st</sup> "pillar" of CAP;
- (ii) levels of 36, 39 and 42% will be reached by moving part of funds from 2<sup>nd</sup> "pillar" of CAP;
- (iii) further direct payment increases, up to the above levels of 55, 60 and 65% will be able to be reached by support from national budget.

The agreed levels of the direct payments will improve competition of Polish farmers on the Common Market.

## **3. Improvement of conditions for competition (competitors)**

In the process of negotiations the following measures aimed at leveling the unequal competition factors, as per the Polish accession condition proposals, were achieved:

- (i) part allocation of 2<sup>nd</sup> "pillar" of CAP for increase in the levels of direct payments
- (ii) inclusion into the general agricultural clause, pertaining to the transfer of agricultural goods from other member states as well as (iii) the possibility of introduction of protective measures in cases of situations when difficulties occur in the agricultural sector. Poland is the only acceding country - due to specific importance of the agricultural sector - to achieve the possibility of conducting monitoring of import of agricultural products, as well as,
- (iv) possibility (v) of increasing direct payments, financed from internal national budget.

System of simplified payments:

In the process of accession negotiations Poland made the decision to implement the simplified system of direct payments, which guarantees fuller utilization of financial means for direct payments, especially as far as animal bonuses are concerned.

## **4. Production Limits**

### **4.1 Dairy production**

The following Milk Production Quota (MPQ) was agreed between the EU and Poland:

- 8.500 million tons for wholesale procurement (for processing)
- 0.464 million tons for direct sales (direct sales from the farm)
- 0.416 million tons for structural reserve (allowing to take into account increase of the market demand for milk caused by limitation of the on-farm milk consumption).

Comment: The negotiated MPQ for a wholesale procurement is 1 million tons higher than current overall amount of milk processed by dairy plants.

#### 4.2 Crop Production

--A reference yield of grains was established at 3.0 tons per hectare. It was established on the basis of an average yield of grains in Poland in the period starting in 1994/1995 and ending in 1998/1999 (excluding extremes).

– The base crop area was enlarged by considering additional area of corn for silage (146,000 hectares ) and total area amounts to 9,454,277 hectares.

#### 4.3 Livestock Related Premiums

–Special beef cattle premium (paid for each bull which is over 21 months of age and each steer after 9 and 21 months of age) - 926,000 head

– Slaughter premium for calves (paid for each slaughtered calved not older than 6 months) - 839,518 head

– Slaughter premium for adult cattle (paid for each adult cattle) - 1,815,430 head

– Premium for beef cows (paid for each beef cow - at least 87.5% of beef cattle blood ratio) - 325,581 head

– Premium for ewes - 335,880 head

In addition Poland received a quota of 27.3 million EURO to increase premium for cattle and 0.355 million EURO to increase premium for ewes.

#### 4.4 Sugar

The "A" Quota was agreed at the level 1,580,000 tons which meets national demand for sugar and "B" Quota amounting to 91,926 tons.

#### 4.5 Iso-glucose

The production quota was agreed at the level of 26,781 tons.

#### 4.6 Other

– Starch - quota amounts to 149,985 tons

– Tobacco - quota amounts to 37,933 tons

– Dried fodder grass - quota amounts to 13,538 tons

– Hop and hemp for fibers - quota amounts to 1,386 tons

- Tomatoes for processing - quota amounts to 194,639 tons

### 5. Support of rural development and agricultural restructuring

#### 5.1. Plan of Rural Areas Development (PRAD)

PRAD is a part of CAP (the so called 2<sup>nd</sup> "pillar" of CAP from Guarantee Section EAGGF), its aim is to support restructuring agriculture and development of rural areas. This is a complimentary program to the support of agricultural production (1st "pillar" of CAP- direct payments and instruments for market support). Within PRAD the following tasks are undertaken:

(i) support for farms situated in areas with unfavorable farming conditions (LFA)

(ii) structural pension

(iii) agricultural-environment programs

(iv) re-forestation of agricultural areas

Besides these mentioned instruments, Poland obtained the possibility of implementing the following additional instruments, taking into consideration the specifics of our agriculture:

(v) support for small production land

(vi) support for adjustments to the EU standards

During the first three years of membership Poland will have the possibility of implementing for the above mentioned instruments (after deducting means which will be utilized for increases in direct payments) about 2.5 billion EUR (about 10 billion PLN) together with additional financing from national budget (about 20% of this sum). It is not necessary for the individual means of the farmers to be used.

The specific structure of usage of means for particular actions within the PRAD will be set up in the near future, it is already known that only within the instruments of LFA about half of farmable land will be eligible for support amounting to 3-50 EUR/ha annually (besides the direct payments).

## **5.2 Operational Program for Agricultural Sector (OPAS) "Restructuring and Modernization of Food Sector and Development of Rural Areas"**

OPAS financed from the structural funds (Orientation Section EAGGF) covers the following instruments:

(i) farm investments;

(ii) improvement of processing and marketing of agricultural products;

(iii) assistance to young farmers;

(iv) training;

(v) consolidation of land;

(vi) management of rural water resources;

(vii) support to agricultural extension service;

(viii) differentiation of agricultural activities and activities related to agriculture.

Within the first three years of accession, Poland will have an opportunity to use for afore-mentioned instruments around 1.9 billion EURO (around 7.6 billion of Polish zloty) together with financing from the Polish budget around 20 percent of these sum) which is around 15 percent of total allocation for structural funds.

## **5.3. Support for agricultural and rural development within other programs**

It will be possible to support the development of infrastructure from the Integrated Program of Operational Regional Development. This will cover the farmhouse infrastructure and actions of rural rejuvenation, which have to make the rural areas more attractive. There will a total amount of around 100 million EUR for this purpose in a period of 2004-2006.

Transfers for Polish agriculture and rural areas in 2004-2006 (PLN); Preliminary calculations				
	2004	2005	2006	2004-

					2006
I. Direct payments					
basic	in full %	25	30	35	
	mln PLN	2466	3050	3664	9180
	PLN/ha	147	182	218	
after some part of funds will be allocated from the 2nd "pillar" of CAP	in full %	36	39	42	
	mln PLN	3544	4011	4447	12001
	PLN/ha	211	239	265	
together with local financing	in full %	55	60	65	
	mln PLN	5425	6099	6805	18329
	PLN/ha	323	363	405	
II. Market intervention (EC evaluation)	mln PLN	130	343	367	840
III. Rural areas development's project (funds for obligations after reallocation of 25%, 20% i 15% annual allocation on obligations)					
from the EU budget	mln PLN	2262	2645	3007	7914
together with local financing	mln PLN	2714	3174	3608	9497
IV. Industrial Operational Program					
from the EU budget	mln PLN	2132	2084	2084	6300
together with local financing	mln PLN	2665	2605	2605	7875
TOTAL					
from the EU budget	mln PLN	8243	9919	10847	29009
together with local financing	mln PLN	11325	13250	14484	39059

Transfers for Polish agriculture and rural areas in 2004-2006 (EUR); Preliminary calculations					
		2004	2005	2006	2004-2006
I. Direct payments					
basic	in full %	25	30	35	
	mln EUR	616	762	916	2295
	EUR/ha	37	45	55	
after some part of funds will be allocated from the 2nd "pillar" of CAP	in full %	36	39	42	
	mln EUR	886	1003	1112	3000
	EUR/ha	53	60	66	
together with local financing	in full %	55	60	65	
	mln EUR	1356	1525	1701	4582
	EUR/ha	81	91	101	

II. Market intervention (EC evaluation)	mln EUR	130	343	367	840
III. Rural areas development's project (funds for obligations after reallocation of 25%, 20% i 15% annual allocation on obligations)					
from the EU budget	mln EUR	565	661	752	1978
together with local financing	mln EUR	679	794	902	2374
IV. Industrial Operational Program					
from the EU budget	mln EUR	533	521	521	1575
together with local financing	mln EUR	666	651	651	1969
TOTAL					
from the EU budget	mln EUR	2061	2480	2712	7252
together with local financing	mln EUR	2831	3312	3621	9765

Potential financial support for an average farm in Poland after the accession in 2004				
Information on the farm		Profits from CAP in 2004		
		Instruments	Support due (in PLN)	Optional support (in PLN)
Localization	Swietokrzyskie	Direct payments in a simplified system	2442	-
All area, ha	7.86	Support to the LFA (areas with unfavorable farming conditions - around 50% of Poland's total area)	-	1210
Arable lands (ha), incl.:	7.56	Support for farms marginally commercial (support for the most active farmers)	-	5000
- ploughlands	5.71			
- meadows	1.00	Support for adjustment to the EU standards (support for the most active farmers)	-	4536
- pastures	0.65			
- orchards	0.20	TOTAL	2442	10746

## Assumptions:

- a) 55 percent level of direct payments in 2004
- b) the annual rate of subsidies in the simplified system 323 PLN per hectare
- c) annual support for farms with less expensive production 5,000 PLN per farm
- d) annual rate of subsidies for difficult farming lands - 160 PLN per hectare
- e) support for adjustment to the EU standards - 600 PLN per hectare
- f) exchange rate - PLN 4=EUR 1



Conclusions:

- a) a farm can receive a maximum support of PLN 13,187 in 2004
- b) direct payments and potential subsidies for areas with unfavorable farming conditions will be paid to the farmers every year
- c) support to the marginally commercial farms of 5,000 PLN will be possibly paid within 3-5 years
- d) the sum of PLN 4,536 for adjustments can be received only once

Prepared by FAPA